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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 002834

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TAGS: [EPET](#) [ENRG](#) [ECON](#) [EINV](#) [EAID](#) [PREL](#) [IZ](#)

SUBJECT: KRG MAY BE PLOTTING AGAINST IRAQ OIL MINISTER AND  
CONTRACTS

REF: BAGHDAD 2833

Classified By: A/DCM Ambassador Gary Grappo for reasons 1.4 (b) & (d)

[¶1.](#) (C) Summary: The chair and vice-chair of the Oil and Gas and National Resources Committee of the Council of Representatives (parliament) disagree over whether the Council of Ministers (cabinet) or parliament has final authority to approve the large oil-field development contracts currently being finalized by the Oil Ministry. Committee Chair Balo (KDP) said parliament's Kurdish Alliance List (KAL) bloc will attempt to remove Oil Minister Shahrستاني and demand that parliament, not the cabinet, have final approval of these contracts. It is unclear whether the Kurdish bloc has the votes to either impeach Shahrستاني or demand final approval of the contracts. Prolonged debate over these contracts could delay or slow their implementation, giving the Kurdish bloc additional leverage on other issues and postponing much needed additional oil revenue for the Iraqi government. End Summary.

[¶2.](#) (C) On October 15, econoffs met separately with two leaders in the Council of Representatives: Dr. Ali Husayn Balo, the Kurdish chair of the Oil and Gas and National Resources Committee and a member of the Kurdistan Democratic Party (KDP, KRG President Barzani's party), and Dr. Abdul-Hadi Al-Hassani, the Shi'a vice-chair of the Committee and a member of Da'wa (Prime Minister Maliki's party). Econoffs also had previously met with Vice-Chair Hadi on October 7. (Comment: During these meetings, both seemed to be voicing their parties' positions more than their own opinions. Each seems to be strongly partisan -- for example, Vice-Chair Hadi's office is located in the Da'wa party office, not the Oil and Gas Committee's office, in the parliament building. End Comment.)

Kurdish Delegation Plotting to Remove Oil Minister  
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[¶3.](#) (C) Chair Balo said the Kurdish delegation will attempt to expose Oil Minister Shahrستاني's alleged incompetence and mismanagement of the Oil Ministry during his scheduled appearance before parliament for questioning on October 27. He said the Kurdish delegation intends to call for a vote of no confidence in Shahrستاني immediately thereafter, with the intent to remove him from office by the end of the month.

[¶4.](#) (C) Procedurally, a vote of no confidence can take place no sooner than ten days after such questioning, so Shahrستاني would remain in office for at least several additional weeks, even if he were impeached. Politically, however, even calling for Shahrستاني's testimony before parliament might be a serious misstep by his detractors. Shahrستاني, flush with recent triumphs (a transparent and

competitive oil bid round, some hard bargaining against foreign oil companies, and the initialing of a contract with a BP consortium -- and perhaps others soon with an ENI consortium and with an ExxonMobil consortium -- that could yield hundreds of billions of dollars in revenue to Iraq), could use this platform to grandstand and emerge from the questioning in a stronger position. Shahrستاني also benefits from a degree of protection from PM Maliki, thanks both to the ten secular Shi'a members of parliament he brought to Maliki's coalition and to Maliki's support for Shahrستاني's overarching goal of increasing oil sector development and revenues as quickly as possible.

And Demand Final Parliamentary Approval of Oil Contracts  
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15. (C) Chair Balo said the Kurdish delegation will demand that parliament have final approval of the British Petroleum / China National Petroleum Corporation (BP/CNPC) contract for Rumaila oil field, which the cabinet recently approved. (Note: Rumaila was the only field awarded during Iraq's first oil and gas bid round on June 30. End Note.) He said the Kurdish delegation also will demand that other oil and gas contracts from Iraq's first or second bid rounds be approved by parliament. (Comment: The Oil Ministry is currently negotiating contracts for at least two more oil fields that were not awarded during the first bid round; the second bid round is scheduled for December 11-12. End Comment.) Balo said parliament could approve the BP/CNPC contract before the end of the current session of parliament on December 31. When pressed, Balo echoed recent media

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reports, saying international oil companies negotiating with the Oil Ministry should "definitely be worried" about the legality of their contracts, unless parliament approves them. (Comment: If parliament asserts a right to approve the contracts, final approval is unlikely before the new parliament is seated next year. End comment.)

Legal Authority for Final Approval of Contracts is Unclear  
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16. (C) Conversely, Vice-Chair Hadi said the cabinet had the authority to give final approval of these oil and gas contracts. Both he and Chair Balo referred back to Iraqi Law Number 97 of 1967 to justify their assertions. Article 3(2) of that law says only that oil development contracts "must be ratified by law." Balo interprets this to mean ratification by parliament, while Hadi claims ratification by the cabinet would have the force of law and therefore suffices. (Comment: The contradictory assertions highlight the need for new hydrocarbons legislation to replace ambiguous Saddam-era laws. End Comment.)

Comment: KRG Unlikely to Accomplish Its Intent  
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17. (C) We assess that the Kurdish delegation is unlikely to succeed in ousting Oil Minister Shahrستاني; however, the debate it seeks to prompt about whether the cabinet or parliament has the right to give final approval for oil and gas contracts is less predictable and could prove disruptive. Such a debate could delay or slow implementation of oil and gas contracts by international oil companies, a prospect the Kurdish bloc could use as leverage in negotiating other concessions from the central government (reftel). If parliament reasserts itself and assumes authority over oil and gas contracts, the Kurdish bloc (the most disciplined coalition in parliament) could have increased negotiating leverage with respect to hydrocarbons legislation and the disputed internal boundary areas (DIBs). The stakes are huge: the oil-field contract that the cabinet has just approved and the two other large contracts that the Oil Ministry is currently negotiating could increase Iraq's oil

production by about 4.7 million barrels per day within the next six years. This incremental production would almost triple Iraq's current production (of 2.5 million barrels per day) and Iraq's current revenues. End Comment.  
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